

Message Text

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ORIGIN EB-08

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FM SECSTATE WASHDC

TO AMEMBASSY KINSHASA IMMEDIATE

INFO AMEMBASSY PARIS

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY BONN

AMEMBASSY TOKYO

C O N F I D E N T I A L S T A T E 2 7 7 9 1 7

E.O. 11652: GDS

TAGS: EFIN, CG

SUBJECT: DISCUSSION WITH IMF ON ZAIRE

1. THE FOLLOWING ARE THE MAJOR POINTS MADE BY THE IMF TEAM
RECENTLY RETURNED FROM KINSHASA AT A NOVEMBER 16 MEETING IN
OFFICE U.S. EXECUTIVE DIRECTOR:

-- THE SITUATION IN ZAIRE CONTINUES "VERY DIFFICULT". THE
GOZ IS NOT MEETING SOME IMF TARGETS. HOWEVER, HAVING HELD
DISCUSSIONS WITH GOZ REPS AT BANK/FUND MEETING IN SEPTEMBER,
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THE TEAM SAID THEY WERE "NOT TOO SURPRISED". PART OF THE
REASON CAN BE ATTRIBUTED TO FACTORS BEYOND THE CONTROL OF
THE GOZ, I.E., THE DELAY IN PRIVATE BANK IMPLEMENTATION OF
THE LONDON AGREEMENT WHICH WOULD HAVE MADE AVAILABLE \$150
OF \$250 MILLION IN CY77, AND THE DEPRESSED (AT 53-54 CENTS
A POUND WHEREAS IMF CALCULATIONS HAD ASSUMED PRICES WOULD
RISE TO 63 CENTS) PRICE OF COPPER. COFFEE EARNINGS HAVE

ALSO NOT MET THEIR POTENTIAL DUE TO TRANSPORT/SECURITY PROBLEMS (IN EASTERN ZAIRE WHERE 15,000 TONS COULD NOT BE SHIPPED), THE DISINCENTIVE TO EXPORT RESULTING FROM THE EXPORT TAX (CAUSING A BUILD-UP OF STOCKS IN WESTERN ZAIRE), AND THE NON-REPATRIATION OF EXPORT RECEIPTS.

-- ON THE BUDGETARY SIDE, WHILE REVENUES WERE DESCRIBED AS "FAVORABLE", THE COMPOSITION OF EXPENDITURES WAS NOT AS ORIGINALLY ENVISIONED; NOTABLY IN THE AREAS OF OVERRUNS AND DEBT SERVICE ARREARAGES. ONE BRIGHT AREA WAS THE OPERATION OF THE NEW DEBT MANAGEMENT OFFICE (OGEDP) WHICH, WITH IBRD TECHNICAL ASSISTANCE, WAS CLOSE TO COMPLETING A COMPREHENSIVE INVENTORY OF OUTSTANDING GOZ DEBT. THE DEBT OFFICE ALREADY HAS RECORDED 85 TO 90 PERCENT OF NON-SUPPLIERS CREDIT DEBT, AND EXPECTS TO HAVE A FULL INVENTORY OF SUPPLIERS CREDIT DEBT BY YEARS END.

-- THE IMF TEAM WAS NOT ABLE TO OBTAIN ANY CURRENT COMPREHENSIVE BALANCE OF PAYMENTS DATA FOR 1977. THE EXACT EXTENT TO WHICH ZAIRE HAS ACCUMULATED ARREARAGES IS STILL A GUESS. THE TEAM ESTIMATED ZAIRE'S OVERALL DEFICIT FOR THE FIRST NINE MONTHS OF 1977 AT 200 MILLION SDR. THE IMF HAD INITIALLY TARGETED A 55 MILLION SDR DEFICIT (TAKING ACCOUNT OF THE 130 MILLION SDR IN EXPECTED LONDON AGREEMENT BANK DISBURSEMENTS). THE TEAM ESTIMATED ARREARAGES AS INCREASING BY 260 MILLION SDR, WITH CENTRAL BANK

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FOREIGN ASSETS RISING BY 55 MILLION SDR REFLECTING IN PART THE 80 MILLION SDR ALREADY DEPOSITED IN THE BIS PURSUANT TO THE LONDON AGREEMENT.

-- IMF/GOZ DISCUSSIONS HAVE BEEN ADJOURNED UNTIL THE UNCERTAINTIES REGARDING ZAIRE'S PERFORMANCE, INCLUDING AGREEMENT WITH PRIVATE BANKS ARE CLARIFIED. THE FUND TEAM EMPHASIZED THEY WERE PREPARED TO GO BACK AND CONTINUE DISCUSSIONS WITH THE GOZ WHENEVER THE GOZ WAS READY. THE TEAM STRESSED TO GOZ IMPORTANCE OF NEED TO LIMIT BUDGET EXPENDITURES (BY CURBING OVERRUNS), THE NEED FOR STRONGER MEASURES TO IMPROVE REPATRIATION OF EXPORT RECEIPTS, AND TARGETS FOR REDUCING PAYMENTS ARREARAGES. PENDING SATISFACTORY COMPLETION OF IMF-GOZ NEGOTIATIONS, ZAIRE WOULD NOT BE ABLE TO DRAW FURTHER FROM THEIR IMF THIRD STANDBY. (\$5 MILLION IS CURRENTLY DRAWN.)

-- THE TEAM NOTED THAT THE GOZ HAD MADE A REQUEST FOR IMF TECHNICAL ASSISTANCE, AND THAT THE FUND WAS CONSIDERING WAYS IN WHICH IT COULD BE HELPFUL. ONE OF THE MOST PRESSING NEEDS IN THIS AREA IS THAT OF SETTING UP AN ORDERLY SYSTEM FOR THE REPAYMENT OF ARREARS.

-- WHILE THE TEAM HAD NOT TALKED DIRECTLY TO PRESIDENT MOBUTU, (DUE TO MOURNING PERIOD FOR MRS. MOBUTU), OTHER GOZ OFFICIALS EMPHASIZED STRONGLY THE PRESIDENT'S COMMITMENT TO AN IMF PROGRAM.

THE ABOVE INFORMATION IS FOR YOUR BACKGROUND USE. YOU SHOULD NOT INDICATE TO GOZ OFFICIALS ANY USG CONTACT WITH FUND.

2. WHEN QUESTIONED ABOUT ZAIRE'S 1978 PROSPECTS, THE TEAM STATED THEY FELT 1978 WOULD BE "AT LEAST AS CRITICAL" AS 1977. HOWEVER, GIVEN THE SCARCITY OF EVEN 1977 DATA, THE FUND COULD NOT PRODUCE ACCURATE BALANCE OF PAYMENTS PRO-

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JECTIONS FOR 1978 AT THIS TIME.

3. USG HAS ALREADY ADVISED BOTH GOZ AND THE PARIS CLUB CHAIRMAN THAT WE COULD NOT MAKE ANY FINAL PARIS CLUB COMMITMENT ON 1978 MATURITIES UNTIL SUCH TIME AS THE ISSUE OF PRIVATE BANK DEBT IS RESOLVED. THE UNCERTAINTY OF ZAIRE STATUS WITH THE IMF, AND THE SCARCITY OF DATA FOR EVEN 1977, WOULD ALSO ARGUE STRONGLY AGAINST ANY FINAL PARIS CLUB ACCORD AT THIS TIME. (IMF TEAM STATED THAT, AS IN PAST, THEY WOULD BE PREPARED TO MAKE A BRIEF ORAL PRESENTATION ON RESULTS OF THEIR TEAM VISIT.) WE STILL FEEL, HOWEVER, THAT A PARIS CLUB MEETING COULD BE USEFUL FROM THE POINT OF VIEW OF PROVIDING AN OPPORTUNITY TO EXCHANGE ASSESSMENTS OF CURRENT ZAIRE SITUATION, AND FOR REITERATING THE IMPORTANCE WE ATTACH TO BOTH A "COMPARABLE" AGREEMENT WITH THE PRIVATE BANKS AND THE SUCCESSFUL CONCLUSION OF NEGOTIATIONS WITH THE IMF. THE USG WOULD NOT THEREFORE TAKE ANY INITIATIVE TO SUGGEST A POSTPONEMENT OF THE PARIS CLUB MEETING. VANCE

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